Question S326. Given the extra cost to the Government, and the lack of conclusive evidence on burden, why does IRS continue to have taxpayers send their tax returns to the lockbox banks?

Answer. IRS considers requiring taxpayers to mail their Form 1040 return separate from their payment and voucher too burdensome. IRS is conducting focus studies to measure individual taxpayers' reactions to the different payment mailing concepts. FMS and IRS are planning a float study to compare lockbox and service center processing. Once the data is compiled, a decision will be made on whether or no to continue directing Form 1040 returns/payments to lockbox.

Question S327. What, if anything, does IRS plan to do to develop more conclusive evidence on burden?

Answer. See the response above.

Question S328. How much did the government pay banks in fiscal year 1997 to handle individual income tax returns?

Answer. FMS reports that from October 1996 - June 1997, they paid the lockbox banks approximately $8.3 million for individual income tax return handling. FMS has not completed the calculation of lockbox costs for the entire year. In FY 1996, FMS paid lockbox banks $10.8 million.

Question S329. How much does it expect to pay banks for that service in fiscal 1998?

Answer. Presently the cost is unknown. FMS is currently negotiating 1998 lockbox costs and since costs are tied to the Consumer Price Index, they cannot increase more than 2.2 percent.

Question S330. Why are these costs paid by FMS rather than IRS?

Answer. FMS is the U.S. government's financial manager. As such, its responsibilities are to manage Federal payments and collections, promote sound financial management practices by Federal agencies, oversee the Government's central accounting and reporting systems, provide information for investment decisions and manage the Government's relationship with commercial and Federal Reserve Banks. As a part of its role, FMS designates Financial Agents of the government, and monitors the daily deposit flows to the U.S. Treasury. The use of lockbox technology for collection of taxes is one mechanism managed by FMS for Federal agencies. FMS pays all IRS lockbox processing costs except those connected with the processing of installment agreement user fees. IRS reimburses FMS for these costs.

Question S331. Since the proposed FMS study could have a significant impact on IRS operations what does IRS know about the study's status?

Answer. FMS has advertised in the Commerce Business Daily to offer public vendors an opportunity to bid on the float study. FMS hopes to award the contract soon. The study will be conducted during the April peak to compare the service center and lockbox processing. This study should indicate any and all savings that are realized through the use of lockboxes.

Question S332. Assuming the study is done and shows that it is not cost effective to process Form 1040 payments at lockboxes, will IRS return this workload to its service centers?

Answer. If the study shows that is not cost effective to continue processing Form 1040 payments at lockbox, IRS will use this and other information in determining if the workload should be returned to the service centers.

Question S333. Is the new remittance processing system being sized to handle the additional workload if IRS should decide it is more cost effective to process the remittances in-house? If not, why not?

Answer. We are currently conducting a pilot of the new remittance processing system. The results of this pilot will be used to validate the hardware needs at each site. We will also determine what additional equipment, if any, will be needed to process the lockbox 1040 returns/payments if the work is returned to the centers..

Question S369. What information and services are available to taxpayers via IRS' web site?

Answer: Below are examples of IRS Digital Daily Services (all items are updated and current; **bolded** items are new this year)
• Over 600 statistical reports and/or databases
• Tax topics, short explanations of approximately 150 tax subjects
• News releases
• An electronic tax calendar with individual, business, and excise tax dates
• The Internal Revenue Bulletin, issued weekly; contains Revenue Rulings and Procedures, Treasury Decisions, Notices and other items of general interest
• Almost 200 frequently asked tax questions and answers
• Tax regulations and plain English summaries
• The capability to comment officially on proposed regulations
• Sign-up for the Digital Dispatch, an E-mail newsletter of the latest tax news
• Market Segment Specialization Audit Techniques Guides, training tools which describe how we handle certain industry-specific tax issues; currently 17 guides are available on industries as diverse as Pizza Restaurants, Clergy, Musicians, and Alaskan Commercial Fishing
• **Coordinated Issues Papers, over 80 documents which describe IRS' current thinking on industry-specific tax issues**
• Customer service standards

- Thousands of tax forms, publications, and instructions; 1992 to current; a variety of electronic formats are provided to meet a wide variety of customer needs; several interfaces to search and retrieve forms are available, from search by form number or topic to search by date and via File Transfer Protocol interface; printer and publisher versions of the products are also available on-line; publications are provided in Standard Generalized Mark-up Language to facilitate reuse in a variety of published products in media from print to CD-ROM to fax
- **Portions of the Internal Revenue Manual**
- Local news from field offices
- **On-line want ads for IRS jobs**
- **A Tax Professionals' Corner with news and information geared specifically for this customer base**
- A series of 26 interactive "Tax Trails" which allow taxpayers to click yes or no to a few questions and get the tax answers they need to complex tax issues
- **-IRS Year 2000 program information, of particular interest to our electronic trading partners**
- **Advance Notices; prior to issuance in the Internal Revenue Bulletin, these public notices provide late breaking tax news; the notices are widely used by tax research services**
- 76 searchable tax publications with links within publications **(up from 21 last year)**
- Disaster relief kits to assist customers who may need to apply for loans and obtain copies of prior year returns; links to FEMA
- Information on electronic tax payment and filing options
- **Free downloadable tax software**
- Capability to answer tax law (no account) questions via E-mail
- Links to related information and government sites such as state tax forms
- Information on other electronic information services such as fax and CD-ROM
- Extensive contact information such as where to file and key IRS phone numbers
- A variety of exempt organization information such as how to apply, forms, educational materials, frequently asked questions and answers, a tax kit, a database of exempt organizations and types of exemptions
- Small business tax information such as Work Opportunity Credit details, an electronic Your Business Tax Kit for businesses just starting out, a Tax Tips Calender geared just for small business, and information on employee versus independent contractor issues
- Third party processor information (lock boxes)
- **Special notices on important tax news such as the Taxpayer Relief Act**
- Taxpayer Bill of Rights; related training materials and reports to Congress on taxpayer rights
- Taxpayer Advocate Program information, including a directory for Problem Resolution and the 911 form for emergency relief
- International Tax Forum, a newsletter for tax professionals
- Tax Supplement, a compendium of articles normally used by news media to help

spread the word on tax changes
- **Collection Financial Standards**
- **Promotional kits for electronic return preparers**
- Information on educational materials, conferences and exhibits

Question 370. What additional services do you have planned for the web site?

Answer. Our Internet site is updated daily. Thousands of pages of tax information were added just last month. Local news is also available from our field offices such as calendars of small business tax workshops.

Our **E-mail newsletter, the Digital Dispatch**, which provides the latest tax news has grown even more popular. Taxpayers may sign up for this service on our web site and stop the service at any time. For this year, instead of monthly newsletters throughout the year or biweekly in filing season, we send out tax news as it happens. Sometimes that means three E-mails a week. When we initiated this increased service level the number of subscribers increased by thousands in a single month. Imagine that, tens of thousands of people who <u>want</u> more mail from IRS.

We are providing answers to taxpayer questions via Internet E-mail. Last year, we developed a very successful pilot program. This year, we will significantly expand the service from one customer service site to three sites. Taxpayers across the country and overseas can E-mail us with tax law questions (not account questions). An automated system lets them know how long the average wait will be.

Tax professionals play a vital role in helping serve American taxpayers as well. To help them help others, we developed a tax professionals corner on our web site which provides information on workshops, tax research materials, certifications, and how to become an electronic return preparer. We could not have been nearly as successful without the help of industry to define their needs and help in the planning and development. Members of the IRS Commissioner's Advisory Group assisted with developing the **Tax Pro Corner.** We will expand this area based on recommendations and input from tax practitioners and the Commissioner's Advisory Group.

We are currently testing a few **Fill-in-the-Blank Tax Forms**, available via the Net. We plan to make at least 250 of the most popular forms available for taxpayers to fill in on-line this year. Users can download forms from the IRS home page or the IRS Federal Tax Forms CD-ROM, fill in the blanks on their own PCS, and print them out. Feedback thus far has been extremely positive and the majority of those customers who do comment request .. more fillable forms.

Below is background on tactical initiatives for IRS' Electronic Information Services

Expand Core Business Repository (1998-2002): The demand for electronic access to

tax information, both internally and from our external customers is growing dramatically. The core repository is key to meeting these needs. IRS' core business information repository provides electronic access to and management of our most critical text and graphics information assets. This repository contains, for example, more than 10 years of tax forms, publications, and instructions, along with primarily internal information such as the Internal Revenue Manual. The repository is standards-based to provide multimedia publishing capability across CD-ROM, Intranet, Internet, fax, print, print-on-demand, DVD, and other media and to provide portability across numerous computer operating systems. The repository ensures that text and graphics information is consistent across media. This author once, publish many concept is consistent with industry best practice. Standard Generalized Mark-Up Language format is used for text information in the repository. From 1998 through the year 2002, we will continue to add IRS information products to the repository, with the widest distribution products first. The repository is also essential to meeting E-FOIA requirements. We will expand SGML authoring support 1998-2002 within IRS. Through 2002 products will be developed so they can be published in a variety of media as convenient to the customer. This includes, for example, ICADD compliance of text materials to ensure accessibility of electronic products and services by visually impaired and blind customers and employees. The repository is never finished, but is a continuously growing resource.

Expand Tiered Distribution of Electronic Information (1998-2002): Two key programs will be developed. The Corporate Partnership Program provides CD-ROMs of IRS tax products to large businesses. The companies place the CDS on their internal networks and provide free access to their employees. Other federal and state government entities may also join this program. Started in FY98, this program will be expanded through 2002. The second key area is the Library program which currently provides IRS CD-ROMs to public libraries. In 1999 we will add web-based and E-mail services for librarians to assist them in distributing tax information. For example, the status of tax forms and CD shipments for filing season and back ordered materials' arrival dates would be important to this audience. This program will be expanded in 2000 to libraries which are not "public"(such as those in private colleges). For taxpayers this will result in increased accessibility **.**

Develop On-Line Learning Lab (1998-1999), Expand (2000-2002): We are improving our taxpayer education program, particularly for first time taxpayers, students aged 13-18 who learn about taxes in school. We are developing an on-line learning lab which will cover, among many topics, the reasons we pay taxes and how they can meet their tax obligations. Particularly important is availability of electronic filing options and teaching electronic filing with electronic filing. The web-based education program will also have a companion CD product. Interactive games and activities will make taxes--almost fun. First time taxpayers will learn electronic filing methods rather than paper filing and learn to interact electronically with IRS. The initial web site will be available in May 1998, with the first school year availability for 1999. Additional services for other customer groups will be added during the years 2000-2002 (for example, on-line

practitioner workshops, small business workshops, tutorials for updates in specialized tax fields such as estate and gift tax).

Note: the draft opening screen is available now. A poster size image can be made available with 2 days notice. The lab will be an on-line "Zine," part of the Digital Daily. The Zine is called Taxi, short for Tax Interactive.

Electronic Bulletin Board Phase-out (1998-1999): As demand for these services declines, we will phase out services. In 1998, only updates are being made to this system and no new services. In 1999, fewer services will be available. Essentially only tax forms and publications will remain and phase-out is expected to be complete by the end of 1999.

Expand E-mail Capabilities (1998-1999): We expect customer demand for access to IRS services via E-mail to continue growing dramatically. Three programs will help us meet that need, the Digital Dispatch, MailMan, and a new program E-mail Router. The Digital Dispatch and subsidiary "Local Dispatch" systems will provide E-mail newsletter type services. The Dispatch is in operation and the local newsletter capability will be added in 1998. MailMan allows taxpayers to E-mail tax law questions to IRS and get a quick, written response. Production rates for E-mail assistors are 2-3 times that of phone assistors, allowing us to serve more people with less staff. E-mail Router will improve our ability to route E-mail traffic from external sources to the correct offices for rapid follow-up.   E-mail Router development and testing will begin in 1999. Although Customer service will still handle most incoming E-mail, some referrals to Counsel, Inspection, and other offices are expected.

Support Electronic Tax Forms and Software Development and Distribution (1998-2002):
We will continue, through 2002, to develop on-line calculators (for example, 1998 W-4 calculator) to ease burden and reduce errors. Fill-in tax forms are available for the first time in 1998 without calculations.   We will also support ETA goals of developing and distributing free downloadable tax software beginning in 2000 with 1040EZ and expanding to 1040 in 2002.

Expand CD-ROM, Fax, and Internet Service Capacity and Products, Add Media (1998-2002): We must build a highly scalable, physically distributed architecture to support high volume, very peaked traffic. Our information assets must be secure. We must also support referrals to and from separate, secure transaction servers in the ETA and provide for search capabilities across IRS Internet secure and non-secure services. Capacity of all systems must be increased significantly each year, 1998 through 2002 to handle projected demand. More IRS products will be added to all media, particularly products which promote electronic filing and payments. For example, in 1999 we plan to add locator services on the Internet for electronic return preparers. Taxpayers will be able to put in a zip code or city and get a list of certified EROs near them. We plan to add DVD services in 2000. Additional services currently

being examined include undelivered refunds, employment information, job announcements and position descriptions via fax-on-demand. Better tax research bases will be available because we will use "intelligent" text information which is accessible through a normal Internet browser interface and will provide significantly increased search capabilities. To make that happen, Extensible Mark-Up Language (XML) will be deployed for some products in 1999 and expanded through 2002. Interactive forums, electronic town hall meetings, electronic surveys, and other interactive applications will increase. Mirror site capabilities for Internet services will be added by 2000 for at least tax forms and publications distribution. A major part of the expansion will also be to provide help desk services with "triage" capability by 2000. Currently help on Electronic Information Services is available by phone, fax, and E-mail for CD, fax, Internet and electronic bulletin board services. We plan to test the capability to interact live with taxpayers on the Internet to resolve problems with information services in 1999. A split screen push technology will most likely be used to help resolve problems and to give virtual guided tours of electronic services. Taxpayers will be able to input their problem, symptoms, and relevant information and it will be routed to appropriate help desk personnel.

Electronic Support for Administrative Processes (1998-2002): Early on, the focus of Electronic Information Services was on tax publishing and distribution, tax compliance and education. In 1998 we expanded to administrative processes (for example, on-line recruiting and electronic want ads). Support for electronic recruiting, procurement, and other administrative functions will expand through 2002 and support increased electronic interaction with trading partners and customers. Administrative forms and text will be added to the core information repository.

Expanded FAQ Base and Follow-Through (1998-2002): The most critical information to be added to the core repository is a growing base of Frequently Asked Questions and Answers. Our base in 1998 will be expanded through 2002. E-mail questions and answers will be the primary feed for this system. E-mail will be examined and standard answers developed for a searchable base. This base will be used in three ways, first for assistor research and in serving customers (provides consistent and accurate answers). Assistors will be able to use existing standard answers or modify answers as needed (for example, to combine two answers into one E-mail or to more specifically address a concern). Second, the base will be continuously fed to electronic media for public use. So, the FAQs, for example, would also be available on Internet. Third, the FAQs will be fed back to appropriate IRS business functions to immediately improve the quality of products and services. For example, thousands of questions per day on a particular topic might indicate that we need to revise an existing publication to add more materials on this subject and specifically address a concern we had not anticipated. Increasingly the FAQ base will be more and more interactive, similar to the Tax Trails on Internet currently, but with more in-depth probing for complex issues as contained in the customer assistors' guide.

Expand Cross-Government Initiatives for One-Stop Service: The first project in this

area, starting in 1998, will be to develop a cross-government CD-ROM for start-up businesses. The CD will be useful for anyone who is starting a new business and will provide information from a variety of government agencies. The CD will be available in 1999. Additional cross-government services will be deployed through 2002. We expect this to be our first fully blended Web/CD project. In certain topic areas the CD would automatically go to a selected web sites for updates, combine the updated information with the CD information, and present the most current combined information in a single interface.

Support Virtual Communities of Interest for Trading Partners (1998-2002): In 1998, we developed the first of many services targeted to trading partners, a service for tax professionals called the Tax Pro Corner. Some interaction is available. For example, the services do provide the ability to comment on proposed regulations on-line. Later in 1998 we added Y2K trading partner services. The next trading partner projects will provide services for librarians, state tax agencies, and educators. The services will begin with CD and Internet services and will expand to become increasingly interactive, allowing for electronic exchange of information and ideas and allowing for more immediate feedback and improvement of services. Just some of the planned services are chat rooms or on-line forums and on-line tutorials for electronic return preparers, E-mail newsletters for electronic return originators, electronic access to support from taxpayer Education Coordinators and downloadable lesson plans, and special services for trading partners involved in electronic filing and payment.

Support Marketing of Electronic Filing and Payment Options (1998-2002): Current marketing options available include, as just a few examples, space on the cover of our fax transmissions, electronic bulletin board flash notices, CD-ROM audio and video clips and promotional materials, downloadable promotional materials via FTP, Internet cover stories, side bars, and banner ads. Expanded capabilities can be achieved with an ad server which would serve ads based on particular interests and areas a taxpayer accesses. For example, taxpayers looking at information on small business could be served ads on EFTPS. Advertising capabilities will be expanded and more personalized 1999-2002.

Question S371. Are their security concerns or other reasons that limit services you provide on the web site?

Answer. Our choices for Internet services have primarily been driven by customer needs and usage rather than security concerns. Yes, we do have security concerns, but so do our customers in private industry. Very few citizens currently do their banking on the Internet. Certainly, we expect that to change shortly as industry and government security standards for Internet evolve. We are prepared to add new, secure services as our customers' move to using secure Internet services.

Question S372. What data, other than the number of "hits ", does the IRS have to indicate how its web site is being used?

Answer. Although predictive indicators such as hit counts, downloads, fax transmissions are useful to gauge taxpayer response, we will continue to use and expand on additional measures which provide better information on customer service improvements (increased availability, improved quality, faster service, improved accommodations for persons with disabilities, and more convenient hours) and business results (reduced waste, reduced distribution costs, improved production rates, improved time to market, lower cost per customer served) . Currently, for example, we code a sampling of forms so we know where they came from. Separate codes are used for Internet, fax, and CD services. Last year, 6% of forms sampled in submission processing sites came from Internet. Another example is the cost per form distributed. Via Internet the cost is about one penny as compared to telephone orders at about $3. The time it takes to mail forms to international taxpayers is generally 2 weeks or more and via fax or Internet, taxpayers get what they need in minutes. Even within the U.S. it takes 7-10 working days to deliver forms by mail. We constantly examine the most popular Internet products and ensure that taxpayers can get to this information with a minimum number of clicks from anywhere in the site.

Question S373. To what extent, if at all, has use of the web site reduced the demand on other sources of assistance, including telephone and walk-in sites?

Answer. Last year we know that more than 19% of tax forms submitted as tax returns came from the tax packages we mailed out. Approximately 6% of the tax forms submitted came from Internet. In 1996, the first year of operations for our Internet services, 2% of the forms sampled were from our Internet site. So, in one year we saw a tripling from this one source. The percentage of forms submitted that come from tax packages has decreased over the past two years since we have provided Internet service. Two years ago more than 30% of the forms we sampled came from tax packages. Likewise, the percentage of forms coming from our toll-free number for tax forms distribution centers and from walk-in centers has decreased. Similarly, we have seen, for the first time ever, a small decrease in the number of callers who try to reach us by telephone. By tracking and analyzing these trends we can plan resources to meet our customers' changing needs.

Our goal is to make it more convenient for people to get the tax information they need. That is why we provide a broad range of choices for taxpayers. For some that may be Internet, for others it may be telephone services or a visit to their local library. Obviously, many, many taxpayers find the Internet a fast, convenient way to get tax information. Because of the low cost of providing these services, this is a win-win situation. The number of Americans with Internet access is increasing dramatically and we want to meet that service need.

This is a difficult area to quantify, however, telephone demand has decreased in the past two years, even though we have answered more calls. For many, many years telephone calls to IRS increased steadily by about 10% per year. We had hoped that we would see a small decrease in demand that would slow this growth. However, that

is not what happened. IRS created one of the most popular sites on the Internet-- at least at this time of year. Demand (total callers) decreased slightly. The flattening of that growth and decrease in total number of citizens calling has allowed us to answer more of our callers.

As for walk-in, part of the way we gauge the results of various channels for distributing tax information is to track the number of tax forms submitted back to us from various sources. We code forms in order to track the effectiveness of our distribution channels for our customers. Forms coming from the Internet have a different code than those in public libraries or from our distribution centers, for example.

Questions S374 and S375. Have you surveyed taxpayers to get their view on the services you provide via the web site? If not, why not? If so, what have you learned from the taxpayers, and what actions have you taken on what you have learned?

Answer. Yes, we have surveyed taxpayers to get their views. We have learned much not only about the needs of taxpayers but about the impact of our Internet services are having on other IRS services. We have found that surveys alone, however, do not provide the detailed input we need. As just a few examples, there are numerous products that have been added based on taxpayer feedback from a variety of sources. Based on taxpayer E-mail received, we added Applicable Financial Rates to our site in less than two weeks. We added more searchable publications and fill-in-the-blank forms based on feedback from E-mail as well. Our Public Liaison Office arranged for us to meet with representatives of the small business community last week and over the weekend we added a recommended reading list for small businesses. Our trading partners wanted a tax professional's area and we worked with representatives from that arena to design and implement that section of our web site. These are but a few examples, there are many dozens more. We work closely with the IRS Public Liaison Office and the Commissioner's Advisory Group to track user needs and gather input. We have also found through survey that 98% of taxpayers who use Internet to ask tax law questions would have gone to our phone system. This is incredibly useful information which also tracks with the trend we have seen--a decrease of traffic into our phone sites. This also says that the Internet can help us in our efforts to provide better phone service by diverting some traffic.

Our budgeting for different customer service alternatives is based primarily on trends in customer demand. As just one example, over the past two years we have seen a dramatic rise in customer demand for electronic services. Taxpayers are increasingly using convenient electronic media such as Internet, fax, and CD-ROM services to get the tax information they need.

Let me illustrate one way we track the effectiveness of our forms distribution channels and how that impacts our resource decisions. Part of the way we gauge the results of various channels for distributing tax information is to track the number of tax forms submitted back to us from various sources. We code forms in order to track the

effectiveness of our distribution channels for our customers. Forms coming from the Internet have a different code than those in public libraries or from our distribution centers, for example.

Another point I'd like to make is that recent studies show that Internet users are not, for the most part, wealthy citizens. A recent study initiated by Merrill Lynch and Wired Magazine showed that the majority of connected Americans earn between $30,000 and $80,000 a year. As Internet services become available in our schools and public libraries, we need to prepare for the tremendous growth of Internet users. The study points out that while Internet users are comfortable, they are primarily middle class. (Wired Magazine, December 1997 issue, page 274)

Another example of our responsiveness to changing customer needs is our IRS TaxFax system. Taxpayers can retrieve tax forms and information any time of day or night. We have found that some of the most popular IRS TaxFax products, as we predicted, are products for new or small businesses.   One half million fax orders were filled this January and February-- just two months. This figure is well over double last year's total at that time.

Question S518. In March 1997, GAO reported that IRS did not have well-defined procedures for requesting and processing innocent spouse claims (GAO/GGD-97-34, Mar. 12, 1997). GAO recommended that IRS (1)develop new or modify existing publications to better inform and educate taxpayers about the availability of and criteria for innocent spouse relief, (2) develop a tax form and procedures for requesting and either granting or denying such relief, (3) provide additional guidance to IRS employees to better insure consistency in processing innocent spouse cases, (4) establish a cost-effective process for monitoring consistency, and (5) update regulations to reflect current requirements. What steps has IRS taken to implement each of GAO's recommendations?

Answer. (1) New Publication 971, Innocent Spouse Relief is under development and we expect to make it available early in April 1998.

(2) New Form 8857, Request for Innocent Spouse Relief, is in the final stages of review and we expect to make it available for distribution early in April 1998. However, we expect the form to be available on the IRS Web page by the end of March.

(3) Pipeline processing instructions have been updated to process Form 8857, properly. Cincinnati Service Center will be the centralized location to process Form 8857. Receipt and Control, Code and Edit, ERS, and Rejects will route Form 8857 to the Examination function for review. In addition to pipeline processing, Files instructions have been completed and updated accordingly.